RBI (ASSET CLASSIFICATION, PROVISIONING AND INCOME RECOGNITION) DIRECTIONS, 2026

Introduced 3-stage approach

- Stage 1: not experienced a Significant Increase in Credit Risk (SICR) since initial recognition or where it is determined to have low credit risk
- Stage 2: experienced a SICR since initial recognition but is not considered to be credit impaired
- Stage 3: considered to be credit impaired as at the reporting date

Shift from Incurred loss model to Expected Loss Provisioning approach

- Adoption of a forward-looking provisioning approach under the Expected Credit Loss (ECL) framework.
- Lenders to provide for loans based on projected risks - Probability of Default (PD), Loss Given Default (LGD) and Exposure at Default (EAD).
- A borrower-level asset classification to be applied by the Regulated Entities.
- Significant Increase in Credit Risk (SICR) is a significant or material change in the estimated 'Default' Risk over the remaining expected life of the financial instrument.
- Early risk recognition.
- Industry and geographical factors of the borrower will have to be considered. This potentially takes into account the physical and transition risks related to climate change.

Credit risk characteristics

- Instrument type;
- Credit risk ratings;
- Collateral type;
- Remaining term to maturity;
- Industry;
- Geographical location of the borrower;
- Value of collateral relative to the financial asset

Banks to adopt Effective Interest Rate (EIR) method

Bank shall estimate the expected cash flows by considering all the contractual terms of the financial instrument (for example, prepayment, extension, call and similar options) but shall not consider the expected credit losses.

Source: https://rbidocs.rbi.org.in/rdocs/notification/PDFs/MD39857992A3DBE7946619F0F76DF81E472CF.PDF